

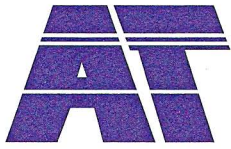
Frankfort City – County Airport Authority

BASIC FINANCIAL STATEMENTS

June 30, 2008

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ANDERSON, TACKMAN & COMPANY, PLC
CERTIFIED PUBLIC ACCOUNTANTS

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MEMBER AICPA
DIVISION FOR CPA FIRMS

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INDEPENDENT AUDITOR'S REPORT

Members of the Board
Frankfort City – County Airport Authority
Frankfort, Michigan 49635

We have audited the accompanying financial statements of the business-type activity and major fund of the Frankfort City - County Airport Authority as of and for the year ended June 30, 2008, which collectively comprise the Authority's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Authority's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall basic financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activity and major fund of the Frankfort City - County Airport Authority as of June 30, 2008, and the respective changes in financial position and cash flows, where applicable, thereof for the year ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 21, 2008, on our consideration of the Authority's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis on page 3 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.



Anderson, Tackman & Company, PLC
Certified Public Accountants

November 21, 2008

Management's Discussion and Analysis

Using this Annual Report

This annual report consists of a series of financial statements. The Statement of Net Assets and the Statement of Revenues, Expenses, and Changes in Net Assets provide information about the activities of the Authority as a whole and present a longer-term view of the Authority's finances.

The Authority as a Whole

The Authority's combined net assets increased 10% from a year ago from \$2,071,013 to \$2,281,660, primarily as a result of large Airport improvement projects. In a condensed format, the table below shows a comparison of the net assets as of the current date to the prior year:

	<u>Business-Type Activity</u>	
	<u>2008</u>	<u>2007</u>
Assets:		
Current Assets	\$ 238,917	\$ 237,855
Capital Assets	<u>2,044,130</u>	<u>1,833,158</u>
Total Assets	<u>\$ 2,283,047</u>	<u>\$ 2,071,013</u>
Liabilities:		
Accounts Payable	<u>\$ 1,387</u>	<u>\$ -</u>
Net Assets:		
Invested in Capital Assets	2,044,130	1,833,158
Unrestricted (Deficit)	<u>237,530</u>	<u>237,855</u>
Total Net Assets	<u>\$ 2,281,660</u>	<u>\$ 2,071,013</u>

The current level of unrestricted net assets for our business-type activity stands at \$237,530, or about 144% of expenses. This is within the targeted range set by the Authority's Board of Directors during its last budget process.

The following table shows the activities of the Authority.

	<u>Business-Type Activity</u>	
	<u>2008</u>	<u>2007</u>
Revenues		
Federal Grants	\$ 58,905	\$ 382,491
State Grants	198,138	156,341
Charges for Services	109,848	96,396
Donations	200	-
Interest and Other	<u>8,101</u>	<u>20,287</u>
Total Revenues	<u>375,192</u>	<u>655,515</u>
Expenses		
Operations	118,834	141,777
Depreciation Expense	<u>45,711</u>	<u>51,386</u>
Total Expenses	<u>164,545</u>	<u>193,163</u>
Change in Net Assets	210,647	462,352
Net Assets, July 1, 2007	<u>2,071,013</u>	<u>1,608,661</u>
Net Assets June 30, 2008	<u>\$ 2,281,660</u>	<u>\$ 2,071,013</u>

Business-Type Activity

The Authority's total business-type revenues decreased by approximately \$280,323, primarily due to the decrease in federal grants received from MDOT compared to the prior fiscal year.

Expenses decreased by about \$28,618 during the year. This was primarily the result of less expense for contractual services and repairs and maintenance.

Capital Asset and Debt Administration

At the end of 2008, the Authority had \$2,044,130 invested in a broad range of capital assets, including airport property, hangers and a weather observation terminal.

The Authority had no long term debt obligations at year end.

Economic Factors and Next Year's Budgets and Rates

A direct reflection of a soft economy, the Authority's 2008 budget will be tight essentially a "hold the line" document when compared to the 2008 program. Insurance costs and fuel continue to increase.

Contacting the Authority's Management

This financial report is intended to provide our citizens, taxpayers, customers and investors with a general overview of the Authority's finances and to show the Authority's accountability for the money it receives. If you have any questions about this report or need additional information, we welcome you to contact the Authority at 448 Court St., Beulah, Michigan or call 231-882-0011.

Basic Financial Statements

ASSETSCurrent Assets

Cash and Equivalents	\$ 173,633
Accounts Receivable	8,880
Due from State	51,436
Inventory	<u>4,968</u>
Total Current Assets	<u>238,917</u>

Non Current Assets

Capital Assets, (Net of Accumulated Depreciation)	<u>2,044,130</u>
TOTAL ASSETS	<u>\$ 2,283,047</u>

LIABILITIES AND NET ASSETSLiabilities

Accounts Payable	<u>\$ 1,387</u>
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Net Assets

Investment in Capital Assets	2,044,130
Unrestricted	<u>237,530</u>
TOTAL NET ASSETS	<u>2,281,660</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 2,283,047</u>

The accompanying notes are an integral part of these financial statements.

Frankfort City - County Airport Authority**Statement of Revenues, Expenses, and
Changes in Net Assets
Year Ended June 30, 2008****OPERATING REVENUE:**

Leases and Rentals	\$ 59,951
Parking and Landing Fees	2,312
Fuel Sales	47,585
Miscellaneous	<u>819</u>

TOTAL OPERATING REVENUES 110,667

OPERATING EXPENSES:

Contract Management Services	16,033
Other Contractual	14,700
Fuel	35,949
Insurance	12,415
Depreciation	45,711
Office Supplies	430
Repairs and Maintenance	11,504
Utilities	7,028
Weather Observation System	3,882
Communication Tower	5,040
Miscellaneous	<u>11,853</u>

TOTAL OPERATING EXPENSES 164,545

TOTAL OPERATING INCOME (LOSS) (53,878)

NON-OPERATING INCOME (EXPENSE):

Interest Earnings	4,482
Township Appropriations	<u>3,000</u>

Total Non-Operating Income (Expense) 7,482

INCOME BEFORE CONTRIBUTIONS:

Federal Capital Grants	58,905
State Capital Grants	<u>198,138</u>

Total Income Before Contributions 257,043

Change in Net Assets 210,647

NET ASSETS, JULY 1 2,071,013

NET ASSETS, JUNE 30 \$ 2,281,660

The accompanying notes are an integral part of these financial statements.

CASH FLOWS FROM OPERATING ACTIVITIES:

Receipts from Customers	\$ 110,568
Payments to Suppliers	(117,447)
Net Cash Provided (Used) by Operating Activities	<u>(6,879)</u>

**CASH FLOWS FROM NONCAPITAL AND RELATED
FINANCING ACTIVITIES:**

Appropriations	<u>3,000</u>
Net Cash Provided (Used) by Noncapital and Related Financing Activities	<u>3,000</u>

**CASH FLOWS FROM CAPITAL AND RELATED
FINANCING ACTIVITIES:**

Federal and State Grants	257,043
Acquisition and Construction of Capital Assets	<u>(256,683)</u>
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>360</u>

CASH FLOWS FROM INVESTING ACTIVITIES:

Interest on Earnings	<u>4,482</u>
Net Cash Provided (Used) by Investing Activities	<u>4,482</u>
Net Cash Provided (Used) - All Activities	963
Cash and Cash Equivalents at Beginning of the Year	<u>172,670</u>
Cash and Cash Equivalents at End of the Year	<u><u>\$ 173,633</u></u>

**RECONCILIATION OF OPERATING INCOME (LOSS) TO NET
CASH PROVIDED (USED) BY OPERATING ACTIVITIES:**

Operating Income (loss)	\$ (53,878)
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:	
Depreciation Expense	45,711
Change in Assets and Liabilities:	
Accounts Receivable	(8,880)
Inventory	8,781
Accounts Payable	<u>1,387</u>
Net Cash Provided (Used) by Operating Activities	<u><u>\$ (6,879)</u></u>

The accompanying notes are an integral part of these financial statements.

Notes to Financial Statements

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

The accounting policies of the Frankfort City - County Airport Authority, conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental entities. The Authority is classified as a business-type activity in accordance with GASB Statement #34. The following is a summary of the significant accounting policies used by the Authority:

A – Reporting Entity:

The financial statements of the Authority include the following operations: Airport management and hanger lease management. The operations listed above are included because the Authority has direct oversight responsibility over each operation.

The Authority was incorporated on August 3, 1995, by the City of Frankfort, Michigan, under provisions of Act No. 206, of 1957, as amended, for the purpose to plan, promote, acquire, construct, improve, enlarge, extend, own and maintain an airport. The Board consists of two members appointed by the City of Frankfort, two members appointed by the County of Benzie, two members appointed by Crystal Lake Township and one member from the public.

B – Basic Financial Statements:

The basic financial statements (i.e., the statement of net assets and the statement of revenues, expenses, and changes in net assets) report information on all of the nonfiduciary activities of the government. For the most part, the effect of interfund activity has been removed from these statements.

When both restricted and unrestricted resources are available for use, it is the Authority's policy to use restricted resources first, then unrestricted resources as needed.

C – Measurement Focus, Basis of Accounting and Financial Statement Presentation:

The basic financial statements are reported using the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

All other revenue items are considered to be available only when cash is received by the government.

Private-sector standards of accounting issued prior to December 1, 1989 are generally followed in the financial statements to the extent that those standards do not conflict with the standards of the Governmental Accounting Standards Board. The government has elected not to follow private-sector standards issued after November 30, 1989 for its business-type activities.

Business-type activity funds distinguish operating revenue and expenses from nonoperating items. Operating revenue and expenses generally result from providing services in connection with a proprietary fund's principal ongoing operations. The principal operating revenue of our proprietary funds relate to charges to customers for rent and sales. Operating expenses for proprietary funds include the cost of sales and services, and administrative expenses. All revenue and expenses not meeting this definition are reported as nonoperating revenue and expenses. There is only one major fund, the operating fund.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (Continued)**D - Assets, Liabilities, and Net Assets or Equity:**

Bank Deposits and Investments – Cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value. Deposits are recorded at cost.

Inventories and Prepaid Items – Fuel inventory is capitalized using the first-in first-out average cost method of valuation. All other inventories, including the cost of supplies, are expensed when purchased. Expenditures for insurance and similar services are expensed when paid.

Capital Assets – Capital assets, which include property, plant, and equipment, infrastructure assets (e.g., runways, sidewalks, and similar items) are reported. Capital assets are defined by the government as assets with an initial individual cost of more than \$5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

Depreciation – Property, plant, infrastructure and equipment are depreciated using the straight-line method over the following useful lives:

Infrastructure	20-30 years
Buildings	40 years
Building and Improvements	20-30 years
Equipment and Vehicles	5-10 years

Use of Estimates – The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the reporting period. Actual results could differ from those estimates.

NOTE 2 - CASH AND EQUIVALENTS:Statutory Authority:

Michigan law (Act 196 PA 1997) authorizes the Authority to deposit and invest in one or more of the following:

- a. Bonds, securities and other obligations of the United States or an agency or instrumentality of the United States.
- b. Certificates of deposit, savings accounts, deposit accounts or depository receipts of a financial institution that is eligible to be a depository of funds belonging to the State under a law or rule of this State or the United States.

NOTE 2 - CASH AND EQUIVALENTS: (Continued)

- c. Commercial paper rated at the time of purchase within the two highest classifications established by not less than two standard rating services and matures not more than 270 days after the date of purchase.
- d. Repurchase agreements consisting of instruments listed in a.
- e. Bankers acceptance of United States banks.
- f. Obligations of this State or any of its political subdivisions that at the time of purchase are rated as investment grade by not less than one standard rating service.
- g. Mutual funds registered under the investment company act of 1940, Title I of Chapter 686, 54 Stat. 789, 15 U.S.C. 80a-1 to 80a-3 and 80a-4 to 80a-64, with the authority to purchase only investment vehicles that are legal for direct investment by a public corporation.
- h. Obligations described in a. through g. if purchased through an interlocal agreement under the urban cooperations act of 1967, 1967 (Ex Sess) PA 7, MCL 124.501 to 124.512.
- i. Investment pools organized under the surplus funds investment pool act, 1982 PA 367, 129.111 to 129.118.
- j. The investment pools organized under the local government investment pool act, 1985 PA 121, MCL 129.141 to 129.150.

The Authority's deposits are in accordance with statutory authority. The Authority's deposits are located in a local financial institution. All deposits are carried at cost.

Balance Sheet Account

Cash and equivalents	\$	173,633
		<hr/>
	\$	<u>173,633</u>

Cash Items

Checking	\$	4,453
Savings		67,419
Certificate of Deposit		<hr/>
	\$	<u>101,761</u>
	\$	<u>173,633</u>

Investment and Deposit Risk

Interest rate risk. State law limits the allowable investments and the maturities of some of the allowable investments as identified in the above list of authorized investments. The Authority's investment policy does not have specific limits in excess of state law on investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit risk. The Authority's investment policy does not have specific limits in excess of state law on investment credit risk. The Authority has no investments for which ratings are required.

NOTE 2 - CASH AND EQUIVALENTS: (Continued)

Custodial credit risk. Custodial credit risk is the risk that in the event of a bank failure, the Authority's deposits may not be returned. State law does not require and the Authority does not have a policy for deposit custodial credit risk. As of year end, \$1,761 of the Authority's bank balance of \$174,293 was exposed to credit risk because it was uninsured and uncollateralized.

NOTE 3 - CAPITAL ASSETS:

Capital Asset activity for the Authority for the current year was as follows:

	Balance 07/01/07	Increases	Decreases	Balance 06/30/08
Business-Type Activity:				
Capital assets not being depreciated:				
Land	\$ 211,050	\$ -	\$ -	\$ 211,050
Construction in progress	802,240	256,683	-	1,058,923
Subtotal	1,013,290	256,683	-	1,269,973
Capital assets being depreciated:				
Buildings	835,074	-	-	835,074
Improvements	314,957	-	-	314,957
Equipment	171,074	-	-	171,074
Vehicles	29,172	-	-	29,172
Subtotal	1,350,277	-	-	1,350,277
Less accumulated depreciation for:				
Buildings	(276,435)	(17,502)	-	(293,937)
Improvements	(121,188)	(18,240)	-	(139,428)
Equipment	(103,616)	(9,969)	-	(113,585)
Vehicles	(29,170)	-	-	(29,170)
Subtotal	(530,409)	(45,711)	-	(576,120)
Net Capital Assets being Depreciated	819,868	(45,711)	-	774,157
Total Capital Assets – Net of Depreciation	\$ 1,833,158	\$ 210,972	\$ -	\$ 2,044,130

Depreciation expense was charged to the airport business activity in the amount of \$45,711.

NOTE 4 - COMMITMENTS AND CONTINGENCIES:

Grant Assistance – The Authority receives significant financial assistance from state and federal agencies in the form of various grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreement and is subject to audit by the grantor agency. Any disallowed claims resulting from such audits should become a liability of the applicable fund of the Authority.

Commitments - During fiscal 2008, the Authority executed two grants with the Michigan Department of Transportation for the design and construction of airport improvements on runway, including runway safety area (RSA) sight work, wetland mitigation, land acquisition, and airport road relocation. At year end the projects were 43% complete with an additional \$366,583 in federal, state and local funding available to complete the projects.

NOTE 5 - RELATED PARTIES:

The County of Benzie, Michigan – Treasurer’s Office provides accounting and related financial services to the Frankfort City - County Airport Authority at no charge. The Treasurer of the Authority is also the Treasurer of the County who performs transactions in the normal course of operations for the Authority.

NOTE 6 - RISK MANAGEMENT:

The Authority is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Authority was unable to obtain general liability insurance at a cost it considered to be economically justifiable. The Authority joined together with other governments and created a public entity risk pool currently operating as a common risk management and insurance program. The government pays an annual premium to the pool for its automobile, property, general liability, and Worker’s Compensation insurance coverage. The agreement provides that the pool will be self-sustaining through member premiums and will reinsure through commercial companies for claims in excess of \$250 for each insured event.

The Authority continues to carry commercial insurance for all other risks of loss. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

The pooling agreement allows for the pool to make additional assessments to make the pool self-sustaining. The Authority is unable to provide an estimate to the amounts of any potential additional assessments.

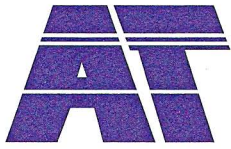
NOTE 7 - FEDERAL GRANTS:

The Michigan Department of Transportation (MDOT) requires that all Airport Authority’s report all federal and state grants pertaining to their agency. During the year ended June 30, 2008, the federal aid received and expended by the Authority was \$58,905 for contracted projects. Contracted projects are defined as projects performed by private contractors paid for and administrated by MDOT (they are included in MDOT’s single audit). Local force account projects are projects where the Authority performs the work and would be subject to single audit requirements if they expended \$500,000 or more.

NOTE 8 - DUE FROM STATE:

As of June 30, 2008, the Authority recorded a receivable of \$51,436 from MDOT for unreimbursed project expenses.

Report on Compliance



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**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

Members of the Board
Frankfort City - County Airport Authority
Frankfort, Michigan 49635

We have audited the financial statements of the business-type activity and major fund, of the Frankfort City - County Airport Authority as of and for the year ended June 30, 2008, which collectively comprise the Frankfort City - County Airport Authority's financial statements and have issued our report thereon dated November 21, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Frankfort City - County Airport Authority's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Authority's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Authority's financial statements that is more than inconsequential will not be prevented or detected by the Authority's internal control. We consider the deficiencies described in the accompanying schedule of findings and responses to be significant deficiencies in internal control over financial reporting, item 08-1.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Authority's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that none of the significant deficiencies described above is a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Frankfort City - County Airport Authority financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of the Frankfort City - County Airport Authority in a separate letter dated November 21, 2008.

Frankfort City – County Airport Authority's response to the findings identified in our audit are described in the accompanying schedule of findings and responses. We did not audit Authority's responses; and accordingly, we express no opinion on it.

This report is intended solely for the information and use of the Board, management and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.



Anderson, Tackman & Company, PLC
Certified Public Accountants

November 21, 2008

SIGNIFICANT DEFICIENCIES

*Preparation of the Financial Statements in Accordance
with Generally Accepted Accounting Principles*

Finding 8-1

Specific Requirement: Establishment and maintenance of internal control over the financial reporting process as defined by Statement on Auditing Standards Number 112 requires management to prepare annual audit statements in accordance with GASB Statement Number 34. (Audit report format)

Criteria: Internal controls should be in place to provide reasonable assurance to the Authority that management reports financial statements (with GASB Statement number 34 formats) necessary to monitor and report annual financial activity without auditor intervention.

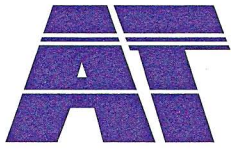
Condition: Auditor prepares financial statements and annual report in compliance with GASB 34.

Effect: The effect of this condition places a reliance on the independent auditor as part of the Authority's internal controls over financial reporting.

Cause: Change in application of audit standard.

Recommendation: The Authority should consider subcontracting financial statement preparation activities to monitor and report annual financial activity in accordance with GASB Statement Number 34.

- *Contact Person(s) Responsible for Correction:*
Linda Wilson, Treasurer
- *Corrective Action Planned:*
As a result of limited funding, the Authority does not have resources to fund this process. We intend to re-evaluate once funding becomes available for the additional reporting and monitoring.



ANDERSON, TACKMAN & COMPANY, PLC
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COMMUNICATION WITH THOSE CHARGED WITH GOVERNANCE

Members of the Board
Frankfort City – County Airport Authority
Frankfort, Michigan 49635

We have audited the financial statements of the business-type activities and major fund of the Frankfort City - County Airport Authority for the year ended June 30, 2008, and have issued our report thereon dated November 21, 2008. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility under U.S. Generally Accepted Auditing Standards and Government Auditing Standards

As stated in our engagement letter dated August 8, 2008, our responsibility, as described by professional standards, is to express opinions about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities.

As part of our audit, we considered the internal control of the Frankfort City - County Airport Authority. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of the Frankfort City - County Airport Authority's compliance with certain provisions of laws, regulations, contracts, and grants. However, the objective of our tests was not to provide an opinion on compliance with such provisions.

Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing previously communicated to you in our meeting about planning matters on August 8, 2008.

Significant Accounting Policies

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the Frankfort City - County Airport Authority are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year. We noted no transactions entered into by the governmental unit during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimate affecting the financial statements was:

- Management's estimate of the depreciation expense based on estimated lives. We evaluated the key factors and assumptions used to develop the estimate in determine that it is reasonable in relation to the financial statements taken as a whole.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole.

Disagreement with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated November 21, 2008.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us as to determine the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the governmental unit's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Comments and Recommendations

The following is a summary of our observations with suggestions for improvements we believe should be brought to your attention. We noted no material matters involving the internal control over financial reporting and compliance, as reported in a separate letter in accordance with Government Auditing Standards of the basic financial statement audit report.

Fixed Assets (Prior)

The Authority should perform a reconciliation of its fixed assets on a biennial basis to ensure fixed assets records are kept current and in agreement with those amounts on the financial statements.

Status: No change.

MDOT Projects (Prior Year)

The Michigan Department of Transportation (MDOT) requires that all Airport Authority's report all federal and state grants pertaining to their agency. During the year ended June 30, 2008, the federal and state aid received and expended by the Authority was \$257,043 for contracted projects. Contracted project are defined as projects performed by private contractors, paid for and administered by MDOT. We recommend that the Authority record such grants and their expenditures in their financial statements as MDOT requires.

Conclusion

We would like to express our appreciation, as well as that of our staff for the excellent cooperation we received while performing the audit. If we can be of any further assistance, please contact us.

This report is intended solely for the information and use of the Members of the Board, finance committee, management and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.



Anderson, Tackman & Company, PLC
Certified Public Accountants

November 21, 2008